

## MONITORING GUIDE FOR REVIEWS OF CHAPTER 12 TRUSTEES

### I. PURPOSE

This review guide is for the monitoring of Chapter 12 trustee case administration and analysis of financial transactions and records. The guide includes functions and tasks common to the administration of all Chapter 12 cases. The United States Trustee may implement the guide for those trustees who are not scheduled for an audit conducted by the Office of the Inspector General.

Each United States Trustee will determine the amount of time and staff resources to be used to complete a review. The general time frame, which the on-site review can be completed by one individual, is estimated to be one or two days.

### II. OBJECTIVES

The objectives of the review are to determine:

- A. Whether the trustee established procedures and practices for sound internal controls to assure that all trust and expense funds are adequately safeguarded against loss; and,
- B. The accuracy of the trustee's reports.

### III. SCOPE

The scope will encompass the recent period of the last Annual Report. Working papers must be prepared to support all conclusions.

### IV. METHODOLOGY

For the review of a Chapter 12 standing trustee, the analyst should use the monitoring guide form as the working paper during the audit. This form provides the analyst an opportunity to incorporate the working papers into the final report. Please note that reference to your work papers should be noted in the "comments" section of the form, when appropriate. In addition, the analyst must designate whether the findings noted in the review have been verified.

We can provide this form on a diskette for your convenience.

V. REFERENCES

- A. Bankruptcy Code (Title 11, U.S.C.), as Amended Pub. Law 95-598.
- B. Handbook for Chapter 12 Trustees, June 1992, EOUST

## VI. PROCEDURES

### A. Survey and Initial Preparation

1. Determine the scope, time frame, staff assignments, etc.
2. Telephone the trustee to set up a date within the time frame of the assignment for the field work to begin.
3. Obtain the following information:
  - a. The last audited Annual Report.
  - b. The most recent Annual Report.
  - c. The most recent budget submission
  - d. The last fixed asset ledger submitted by the trustee.
  - e. Latest bank statements if available.

### B. Review of Internal Controls

This section is used to determine the adequacy of the system of internal controls used by the trustee. At a minimum the following areas must be evaluated:

1. BANK LOCKBOX. Does the trustee utilize a bank lockbox? **YES** \_\_\_\_ **NO** \_\_\_\_ Is it practical and cost effective for the trustee to maintain a bank lockbox to receive substantially all debtor checks? **YES** \_\_\_\_ **NO** \_\_\_\_ This internal control avoids availability of negotiable debtor checks to persons within the trustee's office and expedites bank clearings.

COMMENT \_\_\_\_\_

2. INITIAL CONTROL OVER RECEIPTS. Observe how debtor checks are received in the trustee's office and how the employees who physically handle the checks, post to journals or ledgers. Note how and when the checks are batched or how the checks are identified or brought under numerical control to ensure that all checks received are ultimately deposited.

COMMENT \_\_\_\_\_

3. TIMELY DEPOSIT AND DOCUMENTATION OF RECEIPTS. Are debtor checks recorded on input sheets, deposit tickets prepared, and funds deposited, on a timely basis? **YES** \_\_\_\_ **NO** \_\_\_\_ Are bank receipted deposit slips compared to debtor ledger posting? Are debtor ledger posting independent of receipts processing? **YES** \_\_\_\_ **NO** \_\_\_\_ This routine of deposit and independent comparison secures funds from loss or misplacement through recording errors.

COMMENT \_\_\_\_\_

4. HARD CURRENCY REMITTANCES. Does the standing trustee accept cash payments? **YES** \_\_\_\_ **NO** \_\_\_\_ When cash is received are pre-numbered receipts given to the debtor and immediate deposit made to the bank? **YES** \_\_\_\_ **NO** \_\_\_\_ Does the standing trustee have an office procedure in place to

encourage the re-tendering of payments by  
check or money order? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_

COMMENT \_\_\_\_\_

VERIFICATION  
YES NO

5. REVIEW AND CANCELLATION OF EXPENSE  
DOCUMENTATION. Are invoices canceled to  
prevent duplicate payments by writing or  
stamping "paid, date, check number" on the  
invoice? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_

COMMENT \_\_\_\_\_

6. CREDITOR OVERPAYMENT AND NSF CHECKS. Are  
creditor overpayment and debtor NSF checks  
formally recorded and monitored until  
resolved? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ Is there an  
office procedure in place to accommodate  
these transactions? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_  
Close attention by the trustee to these  
matters is important as ultimate repayment  
could be forgotten or collection  
misappropriated without detection.

COMMENT \_\_\_\_\_

7. FACSIMILE CHECK SIGNING MACHINE AND  
SIGNATURE STAMP. When a facsimile check  
signing machine is used observe if there are  
procedures designed to overcome the absence  
of direct signer involvement. Procedures  
would typically include sole control of the  
signature plate by the trustee or a single  
authorized staff person, monitoring of the  
machine's meter indicating number of  
signatures affixed, and reconciliation, by  
an individual not otherwise involved, of  
number of signatures affixed to number of  
checks approved and recorded. Use of a  
signature stamp would require restriction to  
a designated person, security of the stamp  
in a locked safe or compartment and  
restricted access to the secured  
compartment.

COMMENT \_\_\_\_\_

VERIFICATION  
YES NO

8. STALE DATED OUTSTANDING CHECKS. Are stale dated outstanding checks canceled and reissued or otherwise disposed of? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ This action is a means of protecting against unauthorized disbursements, possibly clearing under guise of old outstanding checks.

COMMENT \_\_\_\_\_

9. DEBTOR REFUNDS. Observe if debtor refunds are made by check and if they are made when the case is closed, converted or dismissed.

COMMENT \_\_\_\_\_

10. REVIEW AND CANCELLATION OF EXPENSE DOCUMENTATION. Observe if the check signer reviews supporting documentation concurrent with signing expense checks. Are all copies of supporting documentation physically canceled to indicate completion of the disbursement process? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_

COMMENT \_\_\_\_\_

11. DISTRIBUTION OF SIGNED CHECKS. Are individuals involved in the preparing of trust and expense disbursement checks involved in their stuffing and mailing? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ Segregation of these duties avoids access to signed checks by persons capable of inserting improper checks into the disbursement cycle.

COMMENT \_\_\_\_\_

12. UNDELIVERABLE DISBURSEMENT CHECKS. Are disbursement checks that are returned, because of inadequate address or other reasons, processed by an individual uninvolved with initial check authorization and preparation? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ Independent processing of post office and other returns provides a cross-check over possible misdirection of returned checks.

COMMENT \_\_\_\_\_

VERIFICATION  
YES NO

13. TIMELINESS AND APPROVAL OF BANK RECONCILIATIONS. Are the reconciliations of trust, expense, and other bank accounts up-to-date? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ Are the reconciliations reviewed and approved by the trustee? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ Is approval indicated on the face of each reconciliation to fix responsibility for the performance of this task? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_

COMMENT \_\_\_\_\_

14. CORRECTION OF RECONCILING ITEMS. Are bank account reconciling items requiring correction resolved in a timely manner? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ Prompt correction of indicated errors will avoid what could become a massive clerical backlog if the errors are allowed to go without correction.

COMMENT \_\_\_\_\_

15. BANK CUTOFF DATES. Are bank cutoff dates the same as those for the financial records? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ Conforming these cutoffs adds efficiency to the periodic balancing process. End of month cutoffs may be highly desirable for the two functions.

COMMENT \_\_\_\_\_

16. RECONCILING OF DEBTOR LEDGERS WITH CHECKING AND TIME DEPOSIT BALANCES. Are debtor ledgers periodically reconciled to reconciled checking and time deposit balances to verify that detailed case records properly reflect overall receipt and disbursement activity? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_

COMMENT \_\_\_\_\_

17. NON-INTEREST BEARING FUNDS. Observe that levels of non-interest bearing fund balances appear sufficiently low to conclude that the trustee is efficiently investing idle funds.

COMMENT \_\_\_\_\_

VERIFICATION  
YES NO

18. COMPUTER PASSWORD SECURITY AND CONTROLS. Observe trustee procedures for preparing data processing transmittals and receiving (processed) data back into the office routine. Are batch totals used to help ensure dollar and document integrity of data processed? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ Does staff review all manual check listings and other data controls and error documents on a timely basis to verify or correct data? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ The exercise of timely user controls is essential to monitoring of data processing activities. Make sure passwords are changed periodically.

COMMENT \_\_\_\_\_

19. LIMITED COMPUTER FILE ACCESS. Are dedicated computer passwords used to limit employee access to sensitive data fields as creditor name, creditor address, settlement amount, etc.? **YES** \_\_\_\_\_ **NO** \_\_\_\_\_ The use of passwords should not restrict the performance of individual employee-assigned jobs.



COMMENT \_\_\_\_\_

20. COMPUTER PROGRAMMING SECURITY. Are computer programmers allowed access to live debtor/creditor data files? **YES** \_\_\_\_ **NO** \_\_\_\_ The segregation of these duties is important to provide assurance that persons with access to and capability of changing applications programs cannot individually address and possibly change live debtor/creditor data for self-serving purposes.

COMMENT \_\_\_\_\_

21. COMPUTER LOCK AND KEY SECURITY. Observe that a physical locking mechanism is used to secure hardware when not in authorized use and that keys are adequately secured.

COMMENT \_\_\_\_\_

VERIFICATION  
YES NO

22. INTERNAL COMPUTER SOFTWARE EDITS. Does the trustee's computer programs include automatic edit checks for such matters as:

- a. Agreement of daily debtor/creditor account posting with daily receipts, **YES** \_\_\_\_ **NO** \_\_\_\_
- b. Agreement of parallel debtor and creditor account posting, **YES** \_\_\_\_ **NO** \_\_\_\_
- c. Agreement of aggregate ledger balances with cumulative transaction totals, **YES** \_\_\_\_ **NO** \_\_\_\_
- d. Agreement of compensation and expense with authorized percentages, **YES** \_\_\_\_ **NO** \_\_\_\_

- e. Reconciliation of posted activity with beginning and ending ledger balances, **YES** \_\_\_\_ **NO** \_\_\_\_
- f. "Illegal" transactions, debtor/creditor, or other codes, **YES** \_\_\_\_ **NO** \_\_\_\_
- g. Overdisbursed debtor balances, **YES** \_\_\_\_ **NO** \_\_\_\_
- h. Unreasonably held undisbursed debtor funds? **YES** \_\_\_\_ **NO** \_\_\_\_

These types of internal edit checks are critical to detection of data entry, computer program, and other kinds or errors.

COMMENT \_\_\_\_\_

23. PERIODIC DEBTOR COMMUNICATION. Are periodic statements mailed to debtors or debtors' attorneys in the ordinary course of business to provide a passive control over potential errors? **YES** \_\_\_\_ **NO** \_\_\_\_

COMMENT \_\_\_\_\_

VERIFICATION  
YES NO

24. DELINQUENT DEBTORS. Observe if delinquent debtors are automatically flagged. Immediate recognition of delinquent status is essential for maximum creditor protection.

COMMENT \_\_\_\_\_

25. CASE FILE MAINTENANCE. Do case files that have been observed throughout the engagement generally contain the typically expected documents and document copies (e.g., petitions, notices, proofs of claim and confirmation orders) and appear otherwise to be properly maintained? **YES** \_\_\_\_

**NO** \_\_\_\_ Are periodic file reviews conducted to help ensure follow up of missing items? **YES** \_\_\_\_  
**NO** \_\_\_\_

COMMENT \_\_\_\_\_

26. SURETY BONDING. Does the surety bonding as listed on the Annual Report indicate a level of bond coverage that complies with U.S. Trustee requirements? **YES** \_\_\_\_ **NO** \_\_\_\_

COMMENT \_\_\_\_\_

27. OPERATING BUDGETS. Are operating budgets monitored and updated as each year progresses to ensure that expenses are controlled and compensation limitations are not inadvertently exceeded? **YES** \_\_\_\_ **NO** \_\_\_\_

COMMENT \_\_\_\_\_

28. FIXED ASSET LEDGER. Determine if the trustee maintains a detailed listing of all trusteeship furniture and equipment in such a way that each year's additions can be compared in dollar total to expenditures reported on the Annual report. This procedure is an effective way of avoiding loss of typewriters, adding machines, and other transportable assets.

COMMENT \_\_\_\_\_

VERIFICATION  
YES NO

29. DOCUMENTATION OF STAFF PROCEDURES. Are routine staff procedures documented? **YES** \_\_\_\_ **NO** \_\_\_\_  
Written job descriptions help ensure consistent staff performance, facilitate employee training and cross-training.

COMMENT \_\_\_\_\_

30. MONITORING OF STAFF ATTENDANCE. Observe if staff

attendance is monitored, especially in larger standing trustee offices.

COMMENT \_\_\_\_\_

31. SAFEGUARD OF ACCOUNTING RECORDS. Observe that paper accounting records are stored in secure facilities to protect them from loss due to fire or theft.

COMMENT \_\_\_\_\_

32. SEGREGATION OF DUTIES. Observe if employee duties are segregated to insure that tasks and functions are not totally assigned to any one employee.

COMMENT \_\_\_\_\_

33. JOINT COST ALLOCATION. Are other business operations in addition to the chapter 12 trusteeship (private law practice) operated within the same office? **YES** \_\_\_\_ **NO** \_\_\_\_  
Review the allocation methods used to divide expenses to determine if they are reasonable. Document the basis used for the allocation.

COMMENT \_\_\_\_\_

34. STANDING TRUSTEE INVOLVEMENT. As chief executive of the trusteeship, note the extent of the trustee's personal involvement in the following significant control procedures.

- a. Test of receipted bank deposit slips against posted receipt totals.
- b. Test of bank statements and cleared checks against monthly bank reconciliations.

VERIFICATION  
YES NO

- c. Test of aggregate monthly debtor ledger balances against reconciled bank balances.
- d. Test of trust disbursement checks against

debtor ledgers and plans.

- e. Test of periodically mailed debtor statements against debtor ledgers and plans.
- f. Examination and cancellation of documentation supporting expense account disbursement checks.
- g. Monitoring of sundry income sources.
- h. Monitoring of payroll amounts and test of payroll checks against permanent earnings records.
- i. Preparation and monitoring of operating budgets.
- j. Preparation and monitoring of interim and annual financial reports.

COMMENTS \_\_\_\_\_

C. Fieldwork and Examination

- 1. Determine the accuracy of cash balances for each of the trust fund accounts, i.e. unconfirmed trust account and confirmed trust account. Prepare a lead schedule of all trust fund bank accounts and:
  - a. Reconcile the detail of undisbursed funds by case number to the trust account balances.
  - b. Review two successive months of bank statements and investigate unexplained transactions.
  - c. Review the last prepared outstanding checks list and compare with missing checks on the bank statements.

VERIFICATION  
YES NO

- d. Test a schedule of interest income earned by confirmed trust bank account and tie to total interest income per trustee's general ledger.

COMMENTS \_\_\_\_\_

- 2. Determine the accuracy of the individual debtor ledger balances for five cases.
  - a. Select five cases at random and trace receipts from individual debtor ledger entry to bank deposit statement.
  - b. Review disbursement checks for these same five cases. Inspect checks for payee, endorsement, and validity of payment (per confirmed plan).

COMMENTS \_\_\_\_\_

- 3. Determine the accuracy of the expense account balance.
  - a. Reconcile the expense account balance per the ledger to the bank account.
  - b. Review the last prepared outstanding checks list and compare with missing checks on the bank statements.
  - c. Determine the propriety of trusteeship operating expenses. Review random canceled checks and trace their entry into the expense account ledger.
  - d. Reconcile the transfer of trustee percentage fees from the Debtors Trust Funds to receipts in the Trustee Expense Fund for each month since the last audited Annual Report. **NOTE:** The "last audited Annual Report" may be prior to the last calendar year. Examine the calculation of the trustee percentage fee and ensure the percentage is applied to the amount of disbursements made under confirmed plans.

COMMENTS\_\_\_\_\_

VERIFICATION  
YES NO

4. Obtain copy of the fixed asset ledger by comparing the list of property submitted with the last audited Annual Report and any additions and deletions during the period.

COMMENT\_\_\_\_\_

5. Obtain a schedule of all lease commitments and ensure lease arrangements can be reassigned properly.

COMMENT\_\_\_\_\_

VI. CONCLUSION

- A. List all deficiencies disclosed in the monitoring review.

1. \_\_\_\_\_  
2. \_\_\_\_\_  
3. \_\_\_\_\_  
4. \_\_\_\_\_

- B. Based on this review is an audit recommended?

U.S. DEPARTMENT OF JUSTICE  
EXECUTIVE OFFICE FOR UNITED STATES TRUSTEES

MONITORING GUIDE FOR CONDUCTING REVIEWS  
OF CHAPTER 12 STANDING TRUSTEES

MON12.REV